SIKA
BUSINESS YEAR
2019

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BUILDING TRUST

COMPENSATION REPORT

COMPENSATION REPORT

The Compensation Report describes the compensation principles and programs, as well as the governance framework related to the compensation of the Board of Directors and the members of Sika's Group Management. The report also provides details regarding the compensation programs and the payments made to members of the Board of Directors and of Group Management in the 2019 business year.

The Compensation Report is written in accordance with the Ordinance against Excessive Compensation in Listed Stock Corporations, the standard relating to information on Corporate Governance of the SIX Swiss Exchange, and the principles of the Swiss Code of Best Practice for Corporate Governance of economiesuisse. It has the following structure:

INTRODUCTION BY THE CHAIR OF THE NOMINATION AND COMPENSATION COMMITTEE

DEAR SHAREHOLDERS,

In the name of the Board of Directors and the Nomination and Compensation Committee, I am pleased to introduce the 2019 Compensation Report.

Sika once again delivered record results in 2019. Sales in Swiss francs rose by 14.4% year-on-year to CHF 8,109 million, which equates to an increase of 16.3% in local currencies. Operating profit increased by 11.5% to CHF 1,055 million, thereby surpassing the billion-franc threshold for the first time. Net profit was recorded at CHF 759 million, representing a year-on-year growth of 10.4%. The positive development of the business in all regions together with investments in new factories and acquisitions plus the market launch of new products all contributed to Sika's strong growth. With regard to relative performance, Sika outperformed its peers both in terms of sales growth and profitability improvement. The Compensation Report outlines how these results impacted the variable incentive payments made to the members of Group Management under the different compensation plans.

Last year, the Nomination and Compensation Committee conducted a thorough review of the compensation programs applicable to the Board of Directors and Group Management, on the basis of which several changes have been implemented in the reporting year, as already communicated in last year's Compensation Report:

- Board compensation: the board fees, which had been unchanged since 2012, have been adjusted and the proportion paid in blocked shares increased.
- Compensation of Group Management:
  - Performance Bonus: the voluntary deferral in blocked shares (including matching shares) has been discontinued.
  - Long-term incentive: the long-term incentive now includes relative total shareholder return (TSR) as performance condition, in addition to the return on capital employed (ROCE). The maximum vesting level amounts to 150%, in line with our pay-for-performance philosophy and with market practice.
  - Clawback and malus provisions have been introduced to the Performance Bonus and long-term incentive plans.

Further details on these changes are provided in this Compensation Report.
The compensation system applicable for 2019 as described in this report will also apply for 2020.

In the reporting year, the Nomination and Compensation Committee performed its regular activities throughout the year, such as the succession planning for the positions on the Board of Directors and Group Management, the performance goal setting at the beginning of the year and the performance assessment at year end of Group Management, the determination of the compensation of the members of the Board of Directors and Group Management, as well as the preparation of the Compensation Report and of the say-on-pay votes at the Annual General Meeting.

At the 2019 Annual General Meeting, a binding vote on the aggregate maximum compensation amounts for the Board of Directors and for Group Management was conducted, as well as a consultative vote on the Compensation Report, so that shareholders could express their opinion on our compensation policies and principles. The shareholders approved the compensation amount for the Board of Directors and for Group Management with an approval rate exceeding 95%, however the consultative vote on the Compensation Report received a lower approval rate of 72.4%. Following this result, Sika actively reached out to investors to understand and address their concerns on the compensation policy and programs. You will find the outcomes of this dialogue in this report.

Looking ahead, we will continue to assess and review our compensation programs to ensure that they are still fulfilling their purpose in the evolving context in which the company operates and are aligned with the interests of our shareholders. We will also continue to maintain an open dialog with our shareholders and their representatives. We would like to thank you for sharing your perspectives on executive compensation with us, and trust that you will find this report informative.

Sincerely,

Frits Van Dijk
Chair of the Nomination and Compensation Committee

COMPENSATION GOVERNANCE

NOMINATION AND COMPENSATION COMMITTEE
In accordance with the Articles of Association and the Organizational Rules of Sika AG, the Nomination and Compensation Committee is composed of three members of the Board of Directors who are elected individually by the Annual General Meeting for a period of one year. At the Annual General Meeting 2019, Mr. Frits van Dijk (Committee Chair), Mr. Justin Howell and Mr. Daniel Sauter were re-elected members of the Nomination and Compensation Committee.

It is the responsibility of the Nomination and Compensation Committee to:
- review and determine the compensation policy, including the principles for variable compensation and shareholding programs according to the provisions specified in the Articles of Association;
- propose to the Board of Directors the maximum aggregate amounts of compensation of the Board of Directors and of Group Management to be submitted to the shareholders vote at the Annual General Meeting;
- propose to the Board of Directors the compensation level for the members of the Board of Directors, the CEO, and the other members of Group Management, within the maximum aggregate compensation amounts approved by the Annual General Meeting;
- provide the Board of Directors with a performance assessment of the CEO and of the other members of Group Management, together with a recommendation for the short-term and long-term incentives to be awarded to each of them based on their individual performance and the performance of the company;
- propose to the Board of Directors the Compensation Report;
- prepare the succession planning of the CEO and other members of Group Management, and propose to the Board of Directors the appointment of new members of Group Management;
- prepare the succession planning of the Board of Directors and propose to the Board of Directors new candidates to the Board of Directors.

LEVELS OF AUTHORITY

	CEO	**BoD Chair**	**NCC**	**BoD**	**AGM**
Compensation policy and principles			Proposes	Approves	
Maximum aggregate compensation amounts of BoD and GM			Proposes	Reviews	Approves (binding votes)
Compensation of BoD Chair			Proposes	Approves	
Individual compensation of BoD members			Proposes	Approves	
Compensation of CEO		Proposes	Reviews	Approves	
Individual compensation of members of GM	Proposes		Reviews	Approves	
Compensation Report			Proposes	Approves	Consultative vote

CEO = Chief Executive Officer, BoD = Board of Directors, NCC = Nomination and Compensation Committee, AGM = Annual General Meeting, GM = Group Management

In 2019, the Nomination and Compensation Committee held five ordinary meetings according to the following predetermined annual agenda, as well as an ad hoc conference call:

	Feb	Apr	May	Oct	Dec
Review of overall compensation policy and compensation governance					
Review of external stakeholder feedback on compensation policy and disclosure			■		
Review of overall compensation policy			■		
Preparation and approval of Compensation Report	■				■
Review of shareholdings of member of Group Management (shareholding ownership guideline)	■				
Preparation of say-on-pay vote for next Annual General Meeting	■				
Review of committee duties, accountabilities, and responsibilities	■				
Approval of meeting schedule of the Nomination and Compensation Committee	■				
Self-assessment by the Nomination and Compensation Committee	■				
Compensation of Board of Directors					
Determination of compensation for following compensation period (AGM to AGM)		■			
Benchmark of compensation of the Board of Directors (every 3–4 years)					■
Compensation of Group Management					
Preliminary performance evaluation (previous year)	■				
Final performance evaluation (previous year)		■			
Determination of short-term incentive payout for previous year		■			
Determination of long-term incentive vesting (previous performance period)	■				
Preliminary compensation review for following year (including benchmarking analysis)				■	
Determination of compensation (at target) for following year					■
Determination of performance objectives for following year					■
Nomination items					
Review of Board of Directors constitution			■		
Appraisal and management development plan for members of Group Management			■	■	
Succession planning for Group Management positions				■	

In 2019, two members attended all Committee meetings, while one member attended four meetings and was excused for one meeting. This corresponds to an attendance rate of 93%. The meetings' duration extended from one and a half to two and a half hours.

The Chair of the Nomination and Compensation Committee reports to the Board of Directors after each meeting on the activities of the committee. The minutes of the committee meetings are made available to the members of the Board of Directors. As a general rule, the Chair of the Board of Directors and the CEO attend the meetings in an advisory capacity. They do not attend the meeting when their own compensation and/or performance are being discussed.

The Nomination and Compensation Committee may decide to consult an external advisor from time to time for specific compensation matters. In 2019, Agnès Blust Consulting continued to provide services related to executive compensation matters. This company does not have other mandates with Sika. In addition, support and expertise are provided by internal compensation experts, such as the Head of Human Resources and the Head of Compensation & Benefits.

SHAREHOLDER INVOLVEMENT

The role of the shareholders on compensation matters has gained importance in recent years. First of all, shareholders annually approve the maximum aggregate compensation amounts of the Board of Directors and Group Management. In addition, the principles of compensation are governed by the Articles of Associations, which are also approved by the shareholders. The provisions of the Articles of Associations on compensation are summarized below (please refer to https://www.sika.com/en/investors/corporate-governance-risk-management/articles-of-association.html):

– PRINCIPLES OF COMPENSATION APPLICABLE TO THE BOARD OF DIRECTORS (Articles 11.1, 11.3, and 11.8): The Board of Directors receives fixed compensation in cash and/or in shares.
– PRINCIPLES OF COMPENSATION APPLICABLE TO GROUP MANAGEMENT (Articles 11.1, 11.4 to 11.6, and 11.8): Group Management receives fixed and variable compensation. The variable compensation consists of a Performance Bonus paid in cash and of a long-term incentive in form of equity compensation. For the CEO, the variable compensation (value of paid-out Performance Bonus and grant value of the long-term incentive) may not exceed 300% of the fixed compensation. For the other members of Group Management on average, the variable compensation may not exceed 200% of the fixed compensation.
– BINDING VOTE BY THE ANNUAL GENERAL MEETING (Article 11.2): The Annual General Meeting annually approves the total fixed compensation amount for the Board of Directors for the period until the next ordinary Annual General Meeting and the maximum total fixed and variable compensation amount for Group Management for the next business year.
– ADDITIONAL AMOUNT FOR NEW MEMBERS OF GROUP MANAGEMENT (Article 11.7): The total additional compensation for each new member of Group Management may not exceed the average total compensation of Group Management in the previous business year by more than 200%, or 400% for a new CEO. Proven disadvantages from a change of position may be compensated within this additional amount.
– CREDIT FACILITIES, LOANS, AND POST-EMPLOYMENT BENEFITS (Article 12): The company does not offer any loans, credit facilities, guarantees, or other securities to members of the Board of Directors and Group Management. Pension benefits are offered only in accordance with the occupational pension plans, which are specified in the respective regulations.

In addition, the Compensation Report is submitted to a consultative shareholders' vote, so that shareholders can express their opinion on the compensation policy and programs.

At the 2019 Annual General Meeting, the Compensation Report received a 72.4% approval rate. Following this result, Sika actively engaged in a dialogue with shareholders in order to understand and address their concerns on the compensation policy and programs. The two main points raised by shareholders relate to the structure of the long-term incentive plan (LTI) and are summarized below, together with Sika's explanations:

Shareholders' concerns	Sika's rationale
LTI A relative total shareholder return (TSR) below median still generates a payout (payout curve for relative TSR)	The relative TSR target was added to the LTI as an additional performance condition to strengthen the link between executive compensation and shareholders' returns. The compensation philosophy of Sika is based on a total compensation approach with the intention to pay median compensation for expected performance (i.e. performance achievement of 100%). In case of outperformance, total compensation will exceed market median due to higher incentive payouts, in case of underperformance, total compensation will be below market median due to lower incentive payouts. In addition, Sika's compensation philosophy is to design incentive plans with reasonable leverage (no "all or nothing" plans). This means that a minimal payout is possible in case of performance below target, while there is no payout below a certain threshold performance. On the other side, a maximum overall payout of 150% applies in case of extraordinary performance. This plan design combines both the pay-for-performance philosophy of the company and its commitment to sustainable compensation programs that do not set unintended signals to management or inappropriate incentives. For relative TSR, the target is to reach the median of the peer group (median performance provides for median compensation). Statistically speaking, the probability to reach median performance amounts to 50%. Setting the threshold for payout at median performance would mean that the plan would not generate any payout in half of the cases. Such leverage is not aligned with Sika's compensation philosophy. Instead, the decision was made to use the same payout curve for relative TSR under the LTI plan as the payout curve used since 2010 to measure relative performance for the annual Performance Bonus. This payout schedule has worked very well over the past ten years, demonstrating a robust link between company performance and executive compensation, yet without unreasonable payouts or unintended consequences. Proxy advisors and shareholders have been supportive of this payout schedule in the annual Performance Bonus since its introduction in 2010.

Shareholders' concerns	Sika's rationale
LTI Increase of the maximum payout from 100% to 150%	The increase of the maximum payout potential from 100% to 150% in the LTI plan is in line with the compensation principles of the company of paying for performance and providing for competitive compensation in line with market standards, where the maximum payout in LTI plans usually amounts to between 150% and 200% of target. It is important to note that the previous maximum potential of 100% was substantially below market standards. In addition, this change was introduced in combination with the introduction of an additional performance condition (relative TSR), as described above. The combination of two performance measures makes the plan more challenging and the higher upside potential (150% payout) balances the higher downside risk (payout below 100%, potentially down to 0%).

METHOD FOR DETERMINING COMPENSATION

PERIODIC BENCHMARKING

The compensation of the Board of Directors is regularly reviewed against prevalent market practice of other multinational industrial companies. In 2018, a thorough review had been conducted to determine the competitiveness of the Board compensation in terms of structure and quantum. For this purpose, a peer group of Swiss multinational companies of the industry sector listed on the SIX Swiss Exchange had been selected for the benchmarking analysis. The peer group consists of ABB, Adecco, Barry Callebaut, Clariant, EMS-Chemie, Geberit, Givaudan, Kühne+Nagel, LafargeHolcim, Lindt, Lonza, Richemont, Schindler, SGS, Sonova, Straumann, Swatch, and Swisscom and is well balanced in terms of market capitalization, revenue size, and headcount. This analysis showed that while the compensation structure was broadly in line with prevalent market practice, the compensation levels were slightly below market. Consequently, the fees of the Board of Directors have been increased, effective for the compensation period starting after the 2019 Annual General Meeting, and a higher portion of the compensation is now delivered in blocked shares.

Regarding the compensation of Group Management, a benchmarking analysis is conducted every two years with the support of an independent consultant, Willis Towers Watson. The last analysis was performed in 2018. For the Group Management positions based in Switzerland, the same peer group of companies was used as for the review of compensation of the Board of Directors, excluding EMS Chemie (no data available). For the Group Management position based outside Switzerland, compensation data of similar positions in industrial companies in the country of employment, which are available in the Willis Towers Watson database, are used as benchmark. Willis Towers Watson compiled the relevant benchmarking data and summarized them in a report that served as a basis for the Nomination and Compensation Committee to analyze the compensation of the CEO and Group Management, and to set their target compensation levels for 2019 and 2020. Sika's policy is to pay market median compensation for solid performance (target compensation) and to provide for compensation above the market median in case of strong performance. For newly promoted members of Group Management, Sika's policy is to set target compensation below the market median and to subsequently increase it to market level over a period of two to five years, conditionally upon solid performance.

PEER GROUP FOR BENCHMARKING PURPOSES

In CHF thousands	Market capitalization [1] (12/31/2019)	Revenue [1] (12/31/2018)	Headcount (latest available data)
Sika	25,783	7,085	25,141
upper quartile	26,471	12,750	64,486
median	19,558	6,858	19,845
lower quartile	14,420	4,631	14,500

1) latest available data

PERFORMANCE MANAGEMENT

The actual compensation paid to the individual members of Group Management in a given year depends on company and individual performance. Individual performance is assessed through the annual performance management process, which aims to align individual and collective objectives, to stretch performance, and to support personal development. The objectives for the CEO and members of Group Management are approved by the Nomination and Compensation Committee at the beginning of the business year, and achievement against those objectives is assessed at year-end. The performance assessment of the members of Group Management is conducted by the CEO, while that of the CEO is conducted by the Chair of the Board of Directors. The Nomination and Compensation Committee reviews the performance assessment of the CEO and the other members of Group Management before submitting them to the Board of Directors for approval. In discussing performance, the Nomination and Compensation Committee reflects on the achievement of the individual objectives of each member of Group Management. The Nomination and Compensation Committee also considers the extent to which individuals have carried out their duties in line with company values and expected leadership behaviors. The individual performance assessments, together with the company's performance, form the basis for the determination of incentive payout levels.

COMPENSATION PRINCIPLES

COMPENSATION OF THE BOARD OF DIRECTORS

In order to guarantee the independence of the members of the Board of Directors in exercising their supervisory duties, their compensation consists of a fixed remuneration only. The compensation is delivered partially in cash and partially in blocked shares, in order to strengthen the alignment to shareholders' interests.

COMPENSATION OF GROUP MANAGEMENT

Sika's compensation programs reflect a commitment to attract, develop and retain qualified, talented, and engaged executives. They are designed to motivate executives to achieve the overall business objectives and to create sustainable shareholder value. The compensation programs are based on the following principles:

Pay for performance and sustainable success

The compensation of Group Management is linked to Sika's performance and to individual performance. Through a well-balanced combination of incentive programs, both annual performance and long-term success are rewarded. Furthermore, performance is measured both in absolute terms (year-on-year improvements) and in relative terms (compared to other companies subject to similar market cycles).

Alignment with shareholder interests

A significant portion of compensation is delivered in the form of shares to align the interests of executives with those of the shareholders.

Market competitiveness

Compensation is regularly benchmarked and is in line with competitive market practice.

Transparency

Compensation programs are straightforward and transparent.

The compensation programs include key features that align the interests of executives with those of shareholders and are in line with good practice in corporate governance.

WHAT WE DO

- Conduct an annual review of the compensation policy and programs
- Maintain compensation plans with a strong link between pay and performance
- Conduct a rigorous performance management process
- Maintain compensation plans designed to align executive compensation with long-term shareholder interests
- Require that the CEO and the other members of Group Management own a minimum number of Sika shares in percentage of their annual base salary
- Include clawback and malus provisions in the incentives
- Offer employment contracts with a notice period of a maximum of twelve months

WHAT WE DON'T DO

- Provide discretionary compensation payments
- Reward inappropriate or excessive risk taking or short-term profit maximization at the expense of the long-term health of the company
- Pay dividend equivalents on performance-contingent-deferred units that have not been earned yet based on the company's performance
- Guarantee future base salary increases or non-performance-based incentive payments
- Have prearranged individual severance agreements or special change-in-control compensation agreements

ARCHITECTURE OF COMPENSATION OF THE MEMBERS OF THE BOARD OF DIRECTORS

In order to ensure their independence in their supervisory duties, the members of the Board of Directors receive a fixed compensation only, consisting of a retainer for services to the Board and an additional fee for assignments to committees of the Board, as well as a representation allowance for the Board chair. The retainer is paid half in cash and half in blocked shares, while the committee fees and the representation allowance are paid in cash. The shares are blocked from trading for a period of three years. The blocking period on the shares may lapse in case of change of control or liquidation. The shares remain blocked in all other instances.

The cash payment and the shares are transferred shortly after the Annual General Meeting for the previous term of office, being defined as the period between Annual General Meetings, except for the Board chair who receives his cash compensation in monthly installments. The members of the Board of Directors receive no additional reimbursements of business expenses beyond actual expenditures for business travel. The members of the Board do not participate in Sika's employee benefit plans.

STRUCTURE OF BOARD COMPENSATION

in CHF	in cash	in shares
Retainer (gross p.a.)		
Chair of the Board of Directors	450,000 + 30,000 allowance	450,000[1]
Members of the Board of Directors	125,000	125,000[1]
Committee fees (gross p.a.)[2]		
Committee chair	60,000	
Committee members	40,000	

1) Converted into shares on the basis of the average closing share price in the five first trading days of April before the beginning of the year of office. Shares are allocated to the members of the Board of Directors shortly after the end of the year of office.
2) The Board chair is not eligible for committee fees.

ARCHITECTURE OF COMPENSATION OF THE MEMBERS OF GROUP MANAGEMENT

COMPENSATION MODEL AND COMPENSATION ELEMENTS

The compensation for members of Group Management includes the following elements:
- fixed base salary;
- variable compensation: short-term and long-term incentives;
- benefits and perquisites.

STRUCTURE OF COMPENSATION OF GROUP MANAGEMENT

	Vehicle	Purpose	Drivers	Performance measures
Annual base salary	Monthly cash salary	Attract and retain	Position, market practice, skills, and experience	
Performance bonus (STI)	Annual bonus in cash	Pay for performance	Annual performance	Group EBIT Group net sales Individual goals
Long-term incentive (LTI)	PSU with a 3-year performance vesting	Reward long-term performance Align to shareholders	Business performance over 3 years	Return on capital employed (ROCE) Relative total shareholder return (TSR)
Benefits	Pension and insurances Perquisites	Protect against risks Attract and retain	Market practice and position	

FIXED ANNUAL BASE SALARY

Annual base salaries are established on the basis of the following factors:
- scope, size, and responsibilities of the role, skills required to perform the role;
- external market value of the role;
- skills, experience, and performance of the individual in the role.

To ensure market competitiveness, base salaries of the members of Group Management are reviewed every year, taking into consideration the company's capacity to pay, benchmark information, market movement, economic environment, and individual performance.

PERFORMANCE BONUS (SHORT-TERM INCENTIVE)

The Performance Bonus is a short-term variable incentive, designed to reward the collective performance of the company ("Group performance") and the individual performance of the incumbent, over a time horizon of one year. This variable compensation allows employees to participate in the company's success, while being rewarded for their individual performance.

The Performance Bonus target (i.e. bonus at 100% target achievement) is reviewed annually and is expressed as a percentage of base salary. It amounts to 112% for the CEO and ranges from 50% to 69% for the other members of Group Management. Group performance accounts for 60% of the total bonus, while the achievement of individual objectives accounts for 40%.

GROUP PERFORMANCE

The performance measures for the Group are proposed by the Nomination and Compensation Committee and approved by the Board of Directors. For 2019, they were the same as in previous years:
- EBIT (earnings before interest and tax) improvement during the year, relative to a peer group of companies;
- net sales growth during the year relative to the same peer group.

EBIT improvement is weighted twice as much as net sales growth.

EBIT and net sales performance are measured based on an evaluation provided by an independent consulting firm, Obermatt. This benchmark compares and ranks Sika against the performance of a selected peer group of 23 companies, all industrial firms which were chosen because they have a comparable base of products, technology, customers, suppliers or investors, and are thus exposed to similar market cycles.

PEER GROUP (OBERMATT BENCHMARK)

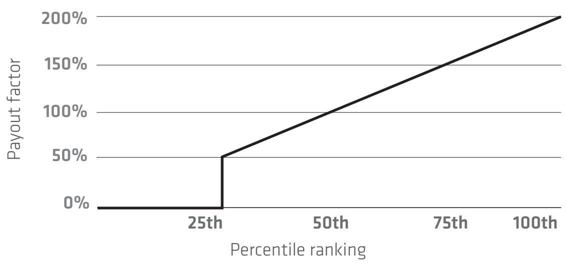
3M – Industrial & Transportations
Armstrong World Industries Inc.
Ashland
BASF – Construction Chemicals
Beacon Roofing Supply, Inc.
Beiersdorf – Tesa
Carlisle – Construction Materials
Cemedine Co., Ltd.
EMS-Chemie Holding AG
Forbo – Flooring Systems
Fuller HB Company
Geberit
GCP Applied Technologies
Henkel – Adhesive Technologies
Hilti Corporation [1]
Huntsman – Performance Products
Owens Corning
Pidilite Industries Limited
RPM
Saint-Gobain
SK Kaken Co., Ltd.
Sto AG
Uzin Utz AG

The following change was made to the peer group in 2019: Ashland sold its Composite division; the entire company is now considered in the peer group.
1) Hilti is not listed on the stock market and is therefore not included for the relative TSR in the LTI plan.

The intention is to reward Group Management based on the relative performance of the company, rather than its absolute performance because absolute performance may be strongly impacted by market factors that are outside the control of management.

For both EBIT and net sales, the objective is to reach at least the median performance of the peer group, which corresponds to a 100% payout factor. There is no payout for any performance below the lowest quartile of the peer group. Performance at the lowest quartile of the peer group corresponds to a payout factor of 50%. Performance at the uppermost quartile leads to a 150% payout factor, and, being the best in the peer group, leads to a 200% payout factor. Any payout factor between those levels is interpolated linearly.

PAYOUT CURVE FOR THE OBERMATT BENCHMARK



INDIVIDUAL PERFORMANCE
The individual performance includes personal objectives that are set as part of the annual performance management process. For the CEO and for the other members of Group Management, they are reviewed and approved by the Nomination and Compensation Committee. The personal objectives are mainly financial in nature, are clearly measurable and are set in three different categories:
- bottom line contribution: profitability of the business under responsibility (EBIT objective expressed as an improvement versus previous year);
- working capital: net working capital of the business under responsibility (expressed as an improvement versus previous year);
- people and projects management: strategic objectives, such as for example entry into new markets, introduction of new products, improvement of processes and operational efficiency, and leadership objectives.

The weight of each category depends on the business priorities inherent to the respective function. In particular, although the Net Working Capital objective was mandatory for all Group Management functions in previous years, it is now applied selectively considering that the company overall and its regions made substantial progress on working capital management over the last several years.

At the end of the financial year, the actual achievement is compared with the objectives that were set at the beginning of the year. The level of achievement for each objective corresponds to a payout percentage for that objective, which is always between 0% and 200%.

The overall bonus payout is capped and cannot exceed 150% of the Performance Bonus target. The Performance Bonus is paid out in April of the following year.

OVERVIEW OF PERFORMANCE OBJECTIVES AND RESPECTIVE WEIGHTING

			CEO, Corporate functions	**Regional heads**
Performance Bonus	Relative Group performance	**EBIT improvement (2/3)** relative to peer group **Net sales growth (1/3)** relative to peer group	40% 20%	40% 20%
	Individual performance	Bottom line/profitability Net working capital People & projects	**40%** EBIT Group NWC Group Personal objective	**40%** EBIT region NWC region Personal objective

LONG-TERM INCENTIVE

Sika's compensation policy is designed to also align a significant portion of compensation of Group Management to the company's long-term performance and to strengthen Group Management's alignment with shareholders' interests. Members of Group Management are eligible for a long-term incentive. The long-term incentive target is reviewed annually and amounts to 122% of annual base salary for the CEO, and ranges from 42% to 77% for the other members of Group Management.

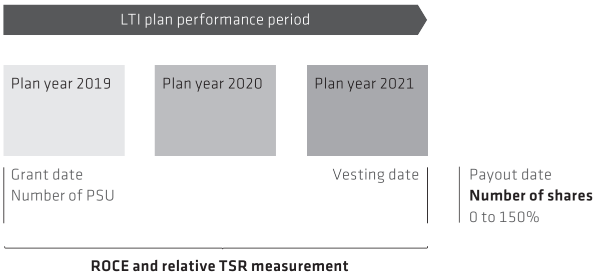
The long-term incentive plan is a performance share unit (PSU) plan. At the beginning of the vesting period, a number of PSU is granted to each member of Group Management. The PSU vest after a period of three years, conditionally upon fulfilling two equally weighted performance conditions, the return on capital employed (ROCE) and relative total shareholder return (relative TSR). The ROCE objective is determined at the beginning of the vesting period by the Board of Directors and is measured at the end of the vesting period as the average ROCE of the first year, the second year, and the third year of the vesting period. Acquisitions are excluded from the ROCE calculation in the year of acquisition and for two additional calendar years. The relative TSR is measured in relation to a peer group as a percentile rank and the objective is to reach the median of the peer group. The peer group consists of all listed companies of the peer group used for the Performance Bonus as disclosed on page 85. The relative TSR measure was introduced in 2019 to further strengthen the link between the compensation of Group Management and the interests of shareholders.

For both performance conditions, the maximum achievement level is capped at 200%, however the overall vesting level for the LTI is capped at 150%. This is in line with the compensation philosophy of the company to align pay with performance and to keep the incentive plan leverage at a reasonable level. The final share allocation is determined after the three-year performance period, based on the following vesting rules:

Performance measures	**ROCE (2019–2021)**	**Relative TSR (2019–2021)**
Weighting	50% of the PSU grant	50% of the PSU grant
Target level	ROCE of 30% 100% payout	Relative TSR at the median of the peer group 100% payout
Maximum achievement level	200%	200%
	Combined maximum payout capped at 150%	
Vesting rules	• Threshold: ROCE of 25% = 50% payout • Target: ROCE of 30% = 100% payout • Maximum: ROCE of 35% = 200% payout • Linear interpolation between threshold, target, and maximum	• Threshold: 25th percentile = 50% payout • Target: median = 100% payout • Maximum: best of all peers = 200% payout • Linear interpolation between threshold, target, and maximum

The shares are allocated at their market value (closing price at grant date on the SIX Swiss Exchange), shortly after the Annual General Meeting in the month of April following the three-year vesting period. In some countries where the allocation of shares may be illegal or impractical, the award may be settled in cash after the performance period.

LONG-TERM INCENTIVE PLAN PERIOD



In case of termination of employment due to retirement, death, disability, or in case of liquidation or a change of control, the unvested PSU are subject to early vesting, prorated for the number of months that have expired from the grant date until the termination date and based on an achievement payout of 100%. In case of termination for any other cause, such as resignation or involuntary termination, the unvested PSU are forfeited.

CLAWBACK AND MALUS PROVISIONS

Clawback and malus provisions apply to both the Performance Bonus and the long-term incentive plans. In case of financial restatement due to non-compliance to accounting standards or fraud, and/or in case of violation of law or of internal rules by a member of Group Management, the Board of Directors may deem any Performance Bonus payment and/or unvested PSU to be forfeited (malus provision) or may seek reimbursement of any paid Performance Bonus and/or allocated shares under the long-term incentive (clawback provision) within a period of three years after the year of restatement or of the fraudulent/non-compliant behavior.

SHARE OWNERSHIP GUIDELINE

The members of Group Management are required to own at least a minimum multiple of their annual base salary in Sika shares within four years of their appointment to Group Management, as set out in the table below.

CEO	300% of annual base salary
Members of Group Management	200% of annual base salary

In the event of a substantial rise or drop in the share price, the Board of Directors may, at its discretion, amend that time period accordingly.

To calculate whether the minimum holding requirement is met, all vested shares are considered, regardless of whether they are blocked or not. However, unvested PSU are excluded. The Nomination and Compensation Committee reviews compliance with the share ownership guideline on an annual basis.

BENEFITS: PENSIONS

As Group Management is international in its nature, the members participate in the benefits plans available in the country of their employment contract. Benefits consist mainly of retirement, insurance, and healthcare plans that are designed to provide a reasonable level of protection for the employees and their dependents in respect to the risk of retirement, disability, death, and illness. The members of Group Management with a Swiss employment contract participate in Sika's pension plans offered to all employees in Switzerland. These consist of the pension fund of Sika Schweiz AG, in which base salaries up to an amount of CHF 133,950 per annum are insured, as well as a supplementary plan in which base salaries in excess of this limit are insured up to the maximum amount permitted by law. Sika's pension funds exceed the legal requirements of the Swiss Federal Law on occupational Retirement, Survivors, and Disability Pension Plans (BVG). Members of Group Management under foreign employment contracts are insured commensurately with market conditions and with their position. Each plan varies in line with the local competitive and legal environment and at a minimum, in accordance with the legal requirements of the respective country.

Moreover, an early retirement plan is in place for members of the top management of Sika. The plan, entirely financed by the employer, is administered by a Swiss foundation. Beneficiaries may opt for early retirement from the age of 60, provided that they have been in a top management position for at least five years. Benefits under the plan are twofold:

- Fixed pension payment until the age of legal retirement. The amount of pension depends on the last fixed salary and the actual age at early retirement.
- Partial financing of the reduction in the regular pension due to early retirement. The amount, which may be received as life-long pension payment or as a capital contribution, depends on the actual age at early retirement and benefits already accrued in existing pension plans. This portion of the plan is only applicable to beneficiaries insured under a Swiss pension plan.

BENEFITS: PERQUISITES

Members of Group Management are also provided with certain executive perquisites, such as a company car allowance and other benefits in kind, according to competitive market practice in their country of employment. The monetary value of these other elements of compensation is evaluated at fair value and is included in the compensation tables below.

EMPLOYMENT CONTRACTS

The members of Group Management are employed under employment contracts of unlimited duration and are all subject to a notice period of one year. Members of Group Management are not contractually entitled to termination payments, or any change of control provisions, other than the early vesting and early unblocking of share awards mentioned above. Their contract may foresee non-competition provisions that are limited in time to a maximum of two years and which allow compensation up to a maximum of six months.

COMPENSATION AWARDED TO THE BOARD OF DIRECTORS IN 2019

This section is audited according to Article 17 of the Ordinance against Excessive Compensation in Listed Stock Corporations.

In 2019, members of the Board of Directors received a total compensation of CHF 2.9 million (2018: CHF 2.6 million) in the form of a retainer of CHF 1.4 million (2018: CHF 1.5 million), committee fees of CHF 0.2 million (2018: CHF 0.2 million), social security contributions of CHF 0.2 million (2018: CHF 0.2 million), and shares of CHF 1.1 million (2018: CHF 0.7 million). The increase in compensation compared to the previous year is due to changes in the composition of the Board of Directors and the new Board fees structure implemented from the 2019 Annual General Meeting.

in CHF	Retainer (cash)	Committee fees (cash)	Value of shares [1]	Social security	Total 2019	Retainer (cash)	Committee fees (cash)	Value of shares [1]	Social security	Total 2018
Paul Hälg, Board chair	490,000	0	400,897	62,956	**953,853**	510,000	0	302,970	58,117	**871,087**
Viktor W. Balli [2], AC member	83,333	26,667	83,413	14,900	**208,313**	0	0	0	0	**0**
Urs F. Burkard [3], NCC member	0	0	0	0	**0**	62,500	12,500	22,530	7,271	**104,801**
Justin M. Howell [4], NCC member	133,333	36,667	100,633	0	**270,633**	87,500	27,500	30,135	0	**145,135**
Willi K. Leimer [3], AC member	0	0	0	0	**0**	62,500	12,500	22,530	7,271	**104,801**
Monika Ribar, AC chair	133,333	56,667	100,633	22,389	**313,022**	150,000	50,000	52,665	18,817	**271,482**
Daniel J. Sauter, NCC member	133,333	36,667	100,633	20,934	**291,566**	150,000	30,000	52,665	17,345	**250,010**
Christoph Tobler, AC member	133,333	36,667	100,633	20,934	**291,566**	150,000	30,000	52,665	17,345	**250,010**
Ulrich W. Suter [5]	50,000	0	17,220	4,212	**71,432**	150,000	0	52,665	13,551	**216,216**
Jürgen Tinggren [3]	0	0	0	0	**0**	62,500	0	22,530	6,350	**91,380**
Thierry F.J. Vanlancker [2]	83,333	0	83,413	0	**166,746**	0	0	0	0	**0**
Frits van Dijk, NCC chair	133,333	56,667	100,633	18,549	**309,182**	150,000	50,000	52,665	16,963	**269,628**
TOTAL	**1,373,333**	**250,000**	**1,088,106**	**164,873**	**2,876,312**	**1,535,000**	**212,500**	**664,020**	**163,030**	**2,574,550**

1) Fair market value is defined as the average closing price of the first five trading days in April before the beginning of the year of office.
2) Since AGM of April 9, 2019.
3) Until EGM of June 11, 2018.
4) Since EGM of June 11, 2018.
5) Until AGM of April 9, 2019.

The compensation disclosed in the Compensation Report always includes the respective calendar year (January to December). However, shareholders approve the compensation to be paid for the period between Annual General Meetings (May to April). The compensation paid for the periods between Annual General Meetings is disclosed below, including a comparison with the compensation amount approved by the shareholders.

At the 2019 Annual General Meeting, shareholders approved an aggregate maximum compensation amount of CHF 3,300,000 for the Board of Directors for the term of office from the 2019 Annual General Meeting until the 2020 Annual General Meeting. The compensation effectively paid for the portion of this term of office included in this Compensation Report (May 1, 2019, until December 31, 2019) is within the limit approved by the shareholders. A conclusive assessment for the entire period will be included in the Compensation Report 2020.

At the Extraordinary General Meeting of June 11, 2018, shareholders approved an aggregate maximum compensation amount of CHF 2,530,000 for the Board of Directors for the term of office from the 2018 Annual General Meeting until the 2019 Annual General Meeting. The compensation paid to the Board of Directors for this term was CHF 2,374,938 and is therefore within the approved limits.

In the year under review, no compensation was paid to former members of the Board of Directors. No compensation was paid to parties closely related to members of the Board of Directors.

In accordance with the Articles of Association, loans to members of the Board of Directors are not permitted. Hence, no member of the Board of Directors was granted a loan during the reporting year. No loans were outstanding at the end of the year under review.

COMPENSATION AWARDED TO THE CEO AND TO GROUP MANAGEMENT IN 2019

This section is audited according to Article 17 of the Ordinance against Excessive Compensation in Listed Stock Corporations.

For 2019, the members of Group Management received a total compensation of CHF 16.1 million (2018: CHF 16.5 million). This amount comprises fixed salaries of CHF 4.9 million (2018: CHF 4.9 million), short-term bonus of CHF 5.2 million (2018: CHF 4.3 million), long-term incentives of CHF 3.0 million (2018: CHF 3.9 million), other expenses of CHF 0.8 million (2018: 1.5 million) and contributions to social security and post-employment benefits of CHF 2.2 million (2018: CHF 1.9 million).

The highest-paid individual in 2019 was Paul Schuler, Group CEO.

In CHF thousands (gross) [1]	**CEO 2019**	**CEO 2018**	**Total 2019** [2]	**Total 2018** [3]
Fixed base salary [4]	980	960	4,910	4,914
Performance Bonus (STI) cash [5]	1,650	710	5,170	2,987
Performance Bonus (STI) shares [5]	0	568	0	1,279
Long-term incentive (LTI) [6]	1,110	1,004	2,997	3,858
Other payments [7]	46	115	849	1,507
Social security and pension contributions [8]	547	513	2,210	1,928
TOTAL	**4,333**	**3,870**	**16,136**	**16,473**

1) All compensation amounts are gross amounts.
2) On the basis of nine members, seven of whom served during the full year in 2019.
3) On the basis of nine members, on a full-year basis.
4) Includes annual base salary and children/family allowances.
5) Estimated Performance Bonus (STI) for the reporting year that will be paid in April of the following year. For 2018, the amount was split between immediate cash and deferred shares (including matching shares) at fair market value. For 2019, the voluntary deferral plan, including matching shares, was discontinued and the entire bonus will be paid in cash.
6) Grant value of the LTI in the reporting year. For 2018, the grant value was based on the share price at grant and included a pro-rata participation in the previous LTI grants that were still in the vesting period for the newly promoted members. For 2019, the grant value is based on the Monte Carlo evaluation of the PSU (due to the interdependency of the TSR and ROCE component) and the pro-rata participation for new members of Group Management is discontinued.
7) Includes all other benefits in kind, and perquisites at fair value such as service anniversary payments, including cost allowances (tax equalization, housing, schooling, home leave) for the international assignees and international transfers.
8) Includes social security contributions (calculated on the awarded compensation, incl. LTI grant value), as well as contributions to company provided pension plans, including the service cost to the pre-retirement plan.

Explanatory comments to the compensation table:

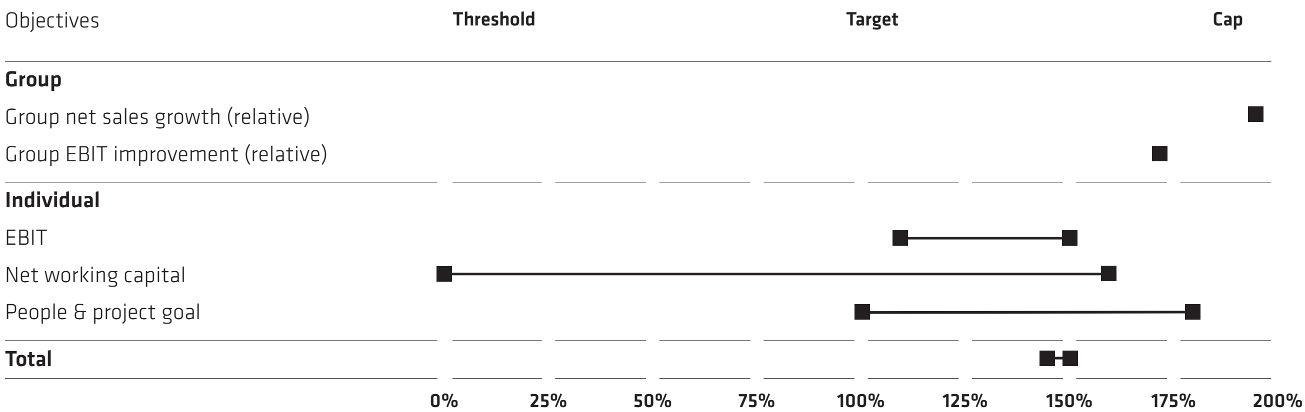
- The fixed compensation has remained stable compared to the previous year (+0.1%). Members of Group Management who have been promoted in recent years received a salary increase in line with the company's policy to set their target compensation below market median at time of promotion and subsequently increase it to market level over a reasonable period of time (two to five years).
- The "other" payments have decreased by 44% compared to the previous year, mainly due to the reduction of the international assignment cost and long-service awards.
- The performance achievement under the Performance Bonus was substantially higher in 2019 than in 2018. Further details are provided below.
- The grant value of the long-term incentive has decreased by 22% compared to the previous year. This is because the pro-rata participation in outstanding plans for newly promoted members of Group Management has been discontinued in 2019, while in 2018, three members who were promoted to Group Management in 2017 received a pro-rata participation in the outstanding plans.
- The social security and pension contributions have increased by 15% because the contribution rates are age-related and some members of Group Management moved into a different age-bracket in 2019. The contribution rates in the pension plan have not changed since several years.
- The variable compensation amounted to 282% of the annual base salary or 176% of the fixed compensation (annual base salary plus contributions to social security and pension plus other payments) for the CEO and between 83% and 174% of the annual base salary, or 60% and 109% of the fixed compensation for the other members of Group Management.

The total amount of compensation of CHF 16.1 million awarded to Group Management in 2019 is below the maximum aggregate amount of compensation of CHF 18 million approved by the shareholders at the 2018 Annual General Meeting for business year 2019.

PERFORMANCE IN 2019 (NOT AUDITED)

The business year 2019 has been a strong year for Sika, with a 14.4% revenue growth (in local currencies 16.3%) and 11.5% profitability increase (earnings before interest and tax). In the Performance Bonus, Sika has outperformed the peer companies in terms of net sales growth (ranked best, payout of 200%) and of EBIT improvement year on year (ranked 5th, payout of 164.9%). The Group performance achievement is estimated at 176.6% (best estimate at time of publication) and will be calculated by Obermatt based on the annual report publications of the peer companies before the payout date in April 2020. This compares to a strong year 2018, where Sika outperformed its peers on net sales growth (6th rank with a 157.5% payout) and matched the industry average in terms of EBIT improvement year on year (ranked 12th with a payout of 99.4%).

Individual performance, which is mainly measured by EBIT and net working capital improvement versus previous year at Group and regional level, ranges from 101.0% to 147.5% for members of Group Management and amounts to 113.5% for the CEO. Consequently, the overall bonus payout percentage ranges from 146.4% to 150% (cap) for members of Group Management and amounts to 150% for the CEO. This compares to a payout range of 111% to 150% for Group Management and to a payout of 123% for the CEO in 2018.



In the long-term incentive 2019–2021, 24,533 performance share units have been granted to the members of Group Management. Those PSU had an overall grant value of CHF 3.0 million and will vest on December 31, 2021, based on the average ROCE performance during 2019–2021, on relative TSR performance during 2019–2021 and upon the continuous employment of the participant.

In the long-term incentive that vested in 2019 (LTI 2017–2019), the performance condition of 29% average ROCE over the vesting period has been overachieved: the average three-year ROCE, excluding acquisitions, amounts to 31.3%, leading to a payout of 100% (cap). Therefore, the 21,060 units granted to the current members of Group Management (including the CEO) have vested with a vesting value of CHF 3.8 million. The value at vesting is higher than the value at grant due to the positive development in the share price during the vesting period (2017–2019).

OVERVIEW OF THE OUTSTANDING PSU GRANTS (INCLUDES MEMBERS OF GROUP MANAGEMENT AS OF DECEMBER 31, 2019)

Plan		**Grant date (PSU)** [1]	**Performance period**	**Vesting date (PSU)**	**Number of PSU granted** [2]	**Total value at grant (CHF)**	**Vesting level in % of grant**	**Number of shares (vesting)**	**Total value at vesting (CHF)**
LTI 2017	Group Mgt. (incl. CEO)	01/01/2017	2017–2019	12/31/2019	21,060	2,013,591	100%	21,060	3,829,761
	CEO	01/01/2017	2017–2019	12/31/2019	8,220	812,518	100%	8,220	1,494,807
LTI 2018	Group Mgt. (incl. CEO)	01/01/2018	2018–2020	12/31/2020	21,000	2,642,150	To be determined	To be determined	To be determined
	CEO	01/01/2018	2018–2020	12/31/2020	7,980	1,004,017	To be determined	To be determined	To be determined
LTI 2019	Group Mgt. (incl. CEO)	01/01/2019	2019–2021	12/31/2021	24,553	3,040,375	To be determined	To be determined	To be determined
	CEO	01/01/2019	2019–2021	12/31/2021	9,663	1,200,014	To be determined	To be determined	To be determined

1) For new members of Group Management, the grant date for the LTI 2017 and LTI 2018 may be different (pro-rata participation in the previous LTI that are still in the vesting period). Pro-rata participation in the LTI 2019 and onwards is discontinued so that the grant date is always 1 January.
2) Number of PSU after the share split following the Extraordinary General Meeting.

In the year under review, no compensation was paid to former members of Group Management. No compensation was paid to parties closely related to members of Group Management.

In accordance with the Articles of Association, loans to members of the Group Management are not permitted. Hence, no member of Group Management was granted a loan during the reporting year. No loans were outstanding at the end of the year under review.

SHAREHOLDINGS OF THE MEMBERS OF THE BOARD OF DIRECTORS AND GROUP MANAGEMENT IN 2019

At the end of 2019, members of the Board of Directors held a total of 123,287 bearer shares of Sika AG (2018: 206,240). At the end of 2019, members of Group Management held a total of 180,844 bearer shares of Sika AG (2018: 160,680). This figure includes both privately acquired shares and those allocated under the Group's compensation schemes.

At the end of 2019, members of the Board of Directors and of Group Management did not hold any options.

Information regarding participations of the Board of Directors and Group Management in Sika AG can be found in the Sika AG Financial Statements (on page 167 of the download version of this report).

EQUITY OVERHANG AND DILUTION AS OF DECEMBER 31, 2019

In total as of December 31, 2019, the equity overhang, defined as the total number of share units and blocked shares outstanding divided by the total number of outstanding shares (141,781,160 registered shares) amounts to 414,999 units, 0.29%.

The company's "burn rate," defined as the number of equities (shares and share units) granted in 2019 (132,477 units) divided by the total number of common shares outstanding, is 0.09%.

OUTLOOK ON COMPENSATION ARCHITECTURE FOR 2020

COMPENSATION OF THE BOARD OF DIRECTORS
The compensation structure and level for the Board of Directors remain unchanged.

COMPENSATION OF GROUP MANAGEMENT
The compensation structure for Group Management was redesigned extensively in 2019. In the spirit of continuity and stability, the Nomination and Compensation Committee established that the compensation framework should remain stable in the coming few years.

The only change foreseen for 2020 relates to the performance objective setting under the annual Performance Bonus with the introduction of an objective in the area of sustainability: the reduction of the carbon footprint. This objective was chosen to recognize the importance of mitigating the company's impact on the environment and to encompass sustainability in the measurement of the performance of Group Management.

The individual objectives will continue to account for 40% of the total Performance Bonus and will be set in the following categories:
- bottom line contribution: profitability of the business under responsibility (EBIT objective expressed as an improvement versus previous year) – this is unchanged;
- sustainability: reduction of CO_2 emissions per ton sold – this is new;
- people and projects management: strategic objectives such as entry into new markets, introduction of new products, improvement of processes and operational efficiency, and leadership objectives – this is unchanged.

OVERVIEW OF PERFORMANCE OBJECTIVES AND RESPECTIVE WEIGHTING FOR 2020

					CEO, Corporate functions	**Regional heads**
Performance Bonus	←	Relative Group performance	←	**EBIT improvement (2/3)** relative to peer group **Net sales growth (1/3)** relative to peer group	40% 20%	40% 20%
	←	Individual performance	←	Bottom line/profitability Sustainability People & projects	**40%** EBIT Group CO_2 emissions Group Personal objective	**40%** EBIT region CO_2 emissions Group Personal objective

The overall structure of the Performance Bonus remains otherwise unchanged. Further details around the performance objectives will be provided in the 2020 Compensation Report.

REPORT OF THE STATUTORY AUDITOR TO THE ANNUAL GENERAL MEETING OF SIKA AG, BAAR

REPORT OF THE STATUTORY AUDITOR ON THE COMPENSATION REPORT
We have audited pages 89 to 91 of the Compensation Report of Sika AG for the year ended December 31, 2019.

BOARD OF DIRECTORS' RESPONSIBILITY
The Board of Directors is responsible for the preparation and overall fair presentation of the Compensation Report in accordance with Swiss law and the Ordinance. The Board of Directors is also responsible for designing the remuneration system and defining individual remuneration packages.

AUDITOR'S RESPONSIBILITY
Our responsibility is to express an opinion on the accompanying Compensation Report. We conducted our audit in accordance with Swiss Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the Compensation Report complies with Swiss law and articles 14 – 16 of the Ordinance.

An audit involves performing procedures to obtain audit evidence on the disclosures made in the Compensation Report with regard to compensation, loans and credits in accordance with articles 14 – 16 of the Ordinance. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements in the Compensation Report, whether due to fraud or error. This audit also includes evaluating the reasonableness of the methods applied to value components of remuneration, as well as assessing the overall presentation of the Compensation Report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

OPINION
In our opinion, the Compensation Report for the year ended December 31, 2019, of Sika AG complies with Swiss law and articles 14–16 of the Ordinance.

Zurich, February 18, 2020

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